

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2002

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 0-27202

ADVANCED LIGHTING TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

34-1803229

(I.R.S. Employer Identification No.)

32000 Aurora Road, Solon, Ohio

(Address of principal executive offices)

44139

(Zip Code)

440 / 519-0500

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

There were 23,525,328 shares of the Registrant’s Common Stock, \$.001 par value per share, outstanding as of April 15, 2002.

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Advanced Lighting Technologies, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except per share amounts)

	(Unaudited) March 31, 2002	(Audited) June 30, 2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,360	\$ 3,652
Trade receivables, less allowances of \$1,809 and \$1,248	27,678	32,762
Inventories:		
Finished goods	18,168	27,122
Raw materials and work-in-process	10,400	22,207
	28,568	49,329
Prepaid expenses	2,372	3,140
Total current assets	60,978	88,883
Property, plant and equipment:		
Land and buildings	29,411	44,399
Machinery and equipment	80,833	84,116
Furniture and fixtures	15,535	21,830
Assets held for sale	5,454	2,479
	131,233	152,824
Less accumulated depreciation	28,783	30,734
	102,450	122,090
Receivables from related parties	7,589	2,177
Investments in affiliates	10,280	13,761
Other assets	7,981	7,955
Intangible assets	3,313	30,890
Excess of cost over net assets of businesses acquired, net	4,267	50,245
	\$ 196,858	\$ 316,001
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt and current portion of long-term debt	\$ 7,872	\$ 8,858
Accounts payable	14,226	20,944
Payables to related parties	408	1,200
Employee-related liabilities	3,072	3,759
Accrued income and other taxes	547	1,030
Other accrued expenses	6,770	7,036
Total current liabilities	32,895	42,827
Long-term debt	133,523	154,914
Minority interest	561	416
Preferred stock, \$.001 par value, per share; 1,000 shares authorized; 761 Series A convertible redeemable shares issued and outstanding at March 31, 2002 (redemption value — \$24,909 at March 31, 2002)	21,594	19,554
Common shareholders' equity		
Common stock, \$.001 par value, 80,000 shares authorized, 23,516 shares issued and outstanding as of March 31, 2002 and 23,288 shares issued and outstanding as of June 30, 2001	24	23
Paid-in-capital	215,425	217,030
Accumulated other comprehensive income (loss)	(4,103)	(5,058)
Loan and interest receivable from officer, less reserve of \$5,500 and \$0	(8,644)	(13,140)
Retained earnings (deficit)	(194,417)	(100,565)
	8,285	98,290
	\$ 196,858	\$ 316,001

See notes to condensed consolidated financial statements

Advanced Lighting Technologies, Inc.
Condensed Consolidated Statements of Operations (Unaudited)
(In thousands, except per share dollar amounts)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2002	2001	2002	2001
Net sales	\$33,841	\$53,890	\$134,535	\$164,697
Costs and expenses:				
Cost of sales	22,706	32,589	87,859	100,075
Marketing and selling	5,868	10,668	25,322	31,407
Research and development	1,529	3,098	6,863	9,681
General and administrative	3,602	3,606	11,857	10,614
Provision for loan impairment	900	—	5,500	—
Gain on settlement of lawsuit	—	—	(554)	—
Special charges	—	—	9,009	—
Amortization of intangible assets	83	709	253	2,118
Income (loss) from operations	(847)	3,220	(11,574)	10,802
Other income (expense):				
Interest expense	(2,559)	(3,436)	(8,616)	(10,663)
Interest income	82	262	144	749
Income (loss) from investments	(2,121)	(81)	(2,332)	(63)
Gain from sale of fixture subsidiaries	—	—	227	—
Income (loss) before income taxes, minority interest and cumulative effect of accounting change	(5,445)	(35)	(22,151)	825
Income tax expense	152	9	386	106
Income (loss) before minority interest and cumulative effect of accounting change	(5,597)	(44)	(22,537)	719
Minority interest in income of consolidated subsidiary	(63)	(31)	(145)	(55)
Income (loss) before cumulative effect of accounting change	(5,660)	(75)	(22,682)	664
Cumulative effect of accounting change	—	—	(71,171)	—
Net income (loss)	<u>\$ (5,660)</u>	<u>\$ (75)</u>	<u>\$ (93,853)</u>	<u>\$ 664</u>
Earnings (loss) per share — basic and diluted:				
Income (loss) before cumulative effect of accounting changes	<u>\$ (.27)</u>	<u>\$ (.03)</u>	<u>\$ (1.06)</u>	<u>\$ (.06)</u>
Earnings (loss) per share — basic and diluted	<u>\$ (.27)</u>	<u>\$ (.03)</u>	<u>\$ (4.10)</u>	<u>\$ (.30)</u>
Weighted average shares outstanding:				
Basic and diluted	<u>23,462</u>	<u>23,238</u>	<u>23,383</u>	<u>22,175</u>

See notes to condensed consolidated financial statements

Advanced Lighting Technologies, Inc.
Condensed Consolidated Statement of Shareholders' Equity (Unaudited)
Nine Months Ended March 31, 2002
(in thousands)

	Preferred Stock	Common Stock		Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Loan and Interest Receivable From Officer	Retained Earnings (Deficit)	Total
		Shares	Par Value					
Balance at July 1, 2001	\$19,554	23,288	\$23	\$217,030	\$(5,058)	\$(13,140)	\$(100,564)	\$117,845
Net loss	—	—	—	—	—	—	(93,853)	(93,853)
Preferred shares accretion	2,040	—	—	(2,040)	—	—	—	—
Loan to officer	—	—	—	—	—	(1,004)	—	(1,004)
Reserve for loan impairment	—	—	—	—	—	5,500	—	5,500
Stock purchases by employees	—	61	—	112	—	—	—	112
Stock issued to employee benefit plan	—	167	1	323	—	—	—	324
Reversal of foreign currency translation adjustments due to sale of subsidiary	—	—	—	—	573	—	—	573
Foreign currency translation adjustment	—	—	—	—	382	—	—	382
Balance at March 31, 2002	\$21,594	23,516	\$24	\$215,425	\$(4,103)	\$ (8,644)	\$(194,417)	\$ 29,879

See notes to condensed consolidated financial statements

Advanced Lighting Technologies, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Nine Months Ended March 31,	
	2002	2001
Operating activities		
Net income (loss)	\$ (93,853)	\$ 664
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	5,458	6,444
Amortization	253	2,118
Provision for doubtful accounts	1,215	181
Loss from investments	2,443	64
Gain on sale of subsidiaries	(227)	—
Cumulative effect of accounting change	71,171	—
Special charges	4,337	—
Provision for loan impairment	5,500	—
Changes in operating assets and liabilities:		
Trade receivables	(1,655)	(961)
Inventories	5,206	898
Prepaid and other assets	(1,151)	421
Accounts payable and accrued expenses	(2,918)	(7,670)
Liabilities related to special charges	2,302	(96)
Other	930	(1,653)
Net cash provided by (used in) operating activities	(989)	410
Investing activities		
Capital expenditures	(11,330)	(17,474)
Proceeds from sale of preferred stock investment	1,000	—
Net proceeds from sale of subsidiaries	24,166	—
Investment in affiliate	(88)	—
Purchase of business	—	(366)
Net cash provided by (used in) investing activities	13,748	(17,840)
Financing activities		
Proceeds from revolving credit facility	125,457	161,997
Payments of revolving credit facility	(124,385)	(160,786)
Proceeds from long-term debt	132	173
Payments of long-term debt and capital leases	(14,687)	(5,052)
Loan to officer	(1,004)	(2,685)
Net proceeds from public offering	—	22,900
Issuance of common stock	436	662
Net cash provided by (used in) financing activities	(14,051)	17,209
Decrease in cash and cash equivalents	(1,292)	(221)
Cash and cash equivalents, beginning of period	3,652	3,890
Cash and cash equivalents, end of period	\$ 2,360	\$ 3,669
Supplemental cash flow information		
Interest paid	\$ 11,201	\$ 12,439
Income taxes paid	129	81
Capitalized interest	892	363
Details of acquisition		
Assets acquired	—	\$ 899
Liabilities assumed	—	(288)
Stock or debt issued	—	(245)
Net cash paid for acquisition	—	\$ 366

See notes to condensed consolidated financial statements

Advanced Lighting Technologies, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2002
(Dollars in thousands, except per share data)

A. Organization

Advanced Lighting Technologies, Inc. (the “Company” or “ADLT”) is an innovation-driven designer, manufacturer and marketer of metal halide lighting products, including materials, system components, systems and equipment. The Company also develops, manufactures and markets passive optical telecommunications devices, components and equipment based on the optical coating technologies of its wholly-owned subsidiary, Deposition Sciences, Inc.

B. Basis of Presentation and Accounting Change

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, the financial statements include all material adjustments necessary for a fair presentation, including adjustments of a normal and recurring nature as well as the special charges described in Note H, a gain on the settlement of a lawsuit, the reserve for loan impairment described in Note G, and the effects of the accounting change for goodwill and intangible assets acquired in a business combination described below. For further information, refer to the consolidated financial statements and notes thereto included in the company’s annual report on Form 10-K for the year ended June 30, 2001. Operating results for the three months and nine months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the full-year ending June 30, 2002.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

Accounting Change – Goodwill and Intangible Assets

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 141, *Business Combinations*, and FAS 142, *Goodwill and Intangible Assets*. FAS 141 is effective for all business combinations completed after June 30, 2001 and requires using the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001.

FAS 142 is effective for fiscal years beginning after December 15, 2001, however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of FAS 142. Early adoption of FAS 142 is permitted. Major provisions of FAS 142 require intangible assets acquired in a business combination to be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can

Advanced Lighting Technologies, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2002
(Dollars in thousands, except per share data)

B. Basis of Presentation and Change in Accounting Principles (continued)

be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability. In addition, goodwill, as well as intangible assets with indefinite lives, will no longer be subject to amortization effective July 1, 2001. Finally, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator. Previously, the Company measured goodwill and intangibles (to be held and used) with indefinite lives for impairment using undiscounted cash flows under the guidance of FAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*.

The Company adopted FAS 142 as of July 1, 2001. The Company evaluated goodwill of \$66,172 and intangible assets with indefinite lives of \$11,874, which represents tradenames. The Company used third party appraisals and expected future discounted cash flows to determine the fair value of the reporting units and whether any impairment of goodwill or indefinite lived intangible assets existed as of the above date. As a result of this evaluation, the Company recorded a cumulative effect of change in accounting principle for the estimated impairment of goodwill and other indefinite lived intangible assets of \$71,171, or \$(3.04) per share, as of the beginning of fiscal 2002. Also, the impact of adopting FAS 142 was to reduce amortization and, consequently, the loss before cumulative effect of accounting change for the third quarter of fiscal 2002 by \$109, or \$.00 per share. The impact of adopting FAS 142 was to reduce the loss before cumulative effect of accounting change for the first nine months of fiscal 2002 by \$1,206, or \$.05 per share. Amortization of intangible assets in the third quarter of fiscal 2001 would have been \$68, a reduction of \$641, or \$.03 per share if the accounting change related to acquired intangible amortization required by FAS 142 had been applied to that quarter. Amortization of intangible assets in the first nine months of fiscal 2001 would have been \$244, a reduction of \$1,874, or \$.09 per share if the accounting change related to acquired intangible amortization required by FAS 142 had been applied to that period.

Reclassification of Certain Sales Incentives and Financial Statement Presentation Changes

The Company adopted Emerging Issues Task Force (“EITF”) Issue 01-9 “Accounting for Consideration Given by a Vendor to a Customer” in the quarter ended March 31, 2002. EITF Issue 01-9 requires that expense associated with a free product or service delivered at the time of sale of another product or service should be classified as cost of sales. The Company’s fixture subsidiaries that were sold in the second quarter of fiscal 2002 had incurred and included such costs in marketing and selling expense. Accordingly, the Company has reclassified such amounts to cost of sales within these financial statements. The amounts reclassified for the three months ended March 31, 2002 and 2001 are \$0 and \$1,098, respectively. The amounts reclassified for the nine months ended March 31, 2002 and 2001 are \$1,836 and \$3,090, respectively. Also, certain amounts for prior periods have been reclassified to conform to the current period reporting presentation.

Advanced Lighting Technologies, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2002
(Dollars in thousands, except per share data)

C. Comprehensive Income (Loss)

For the three- and nine-months ended March 31, 2002 the Company's comprehensive income (loss) was \$(5,438) and \$(92,898), respectively. For the three- and nine-months ended March 31, 2001, the Company's comprehensive income (loss) was \$(1,619) and \$(1,809), respectively. These amounts include net income (loss) and the Company's other component of comprehensive income, foreign currency translation adjustments.

D. Bank Credit Facility and Senior Notes

During the quarter ended December 31, 2001, in connection with the sale of the fixture subsidiaries, the Company amended its Bank Credit Facility to reduce the revolving credit loan to \$25,000 from \$40,000 and the term loan to \$13,000 from \$25,000 and change certain covenants under the agreement. Availability of borrowings under the revolving credit loan is determined by the Company's eligible account receivables and inventories. Prior to the amendment described below, interest rates on the revolving credit loans outstanding were based, at the Company's option, on LIBOR plus 2.75% or the agent bank's prime rate. Under the term loan, the Company pays monthly principal payments that total \$3,576 annually, with the unpaid balance due at maturity. Prior to the amendment described below, interest rates on the term loan were based, at the Company's option, on LIBOR plus 3.25% or the agent bank's prime rate. The Bank Credit Facility matures on July 1, 2004.

The Bank Credit Facility contains certain affirmative and negative covenants customary for this type of agreement, prohibits cash dividends, and includes a financial covenant with respect to the coverage of certain fixed charges. At March 31, 2002, the Company was not in compliance with this financial covenant. The Company obtained a waiver for non-compliance from its lenders for the quarter then ended. In addition, the Bank Credit Facility was amended to provide for a new measurement period for this covenant commencing April 1, 2002. The Company expects to meet this covenant at future determination dates. The Company's ability to elect LIBOR-based interest rates on its loans was suspended pursuant to this amendment. The principal security for the revolving credit loan is substantially all of the personal property of the Company and each of its North American and United Kingdom subsidiaries. The term loan is secured by substantially all of the Company's machinery and equipment and is cross-collateralized and secured with the revolving credit loan.

The Company has \$100,000 of 8% Senior Notes due March 15, 2008. The notes are redeemable at the Company's option, in whole or in part, on or after March 15, 2003 at certain preset redemption prices. Interest on the Senior Notes is payable semiannually on March 15 and September 15 of each year. There are no sinking fund requirements.

The Notes Indenture contains covenants that, among other things, limit the ability of the Company and its Restricted Subsidiaries (as defined therein) to incur indebtedness, pay dividends, prepay subordinated indebtedness, repurchase capital stock, make investments, create liens, engage in transactions with stockholders and affiliates, sell assets and, with respect to the Company, engage in mergers and consolidations.

Advanced Lighting Technologies, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2002
(Dollars in thousands, except per share data)

E. General Electric Company Investment

In October 1999, General Electric Company (“GE”) completed an investment in the Company of \$20,554. In exchange for the investment, GE received 761,250 shares of the Company’s newly created Series A Preferred Stock convertible at any time into 3,045,000 shares of Company Common Stock (subject to adjustment). GE also received a Warrant (the “Initial Warrant”) to purchase an additional 1,000,000 shares of Company Common Stock (subject to adjustment), which GE has fully exercised to acquire 998,703 shares of Common Stock of the Company. GE now holds 1,429,590 shares of Company Common Stock. The Series A Stock and the Common Stock held by GE represent approximately 16.8% of the voting power and equity ownership of the Company at March 31, 2002.

The Series A Stock has a liquidation preference of \$27 per share, plus an amount equal to 8% per annum compounded annually from the date of issuance to the date of payment. The Company is required to redeem any shares of Series A Stock which have not been converted or retired on September 30, 2010. In addition, GE may, by notice, require the Company to redeem the outstanding Series A Stock, within one year following either September 30, 2004, or the occurrence of certain corporate events.

If the Company fails to maintain certain financial ratios over certain measurement periods, GE will have the right to acquire a combination of subscription rights to additional shares and proxies with respect to shares voted by the Chief Executive Officer (“CEO”) of the Company and Alan J. Ruud, giving GE the ability to obtain the majority of the voting power of the Company. The basis for GE’s additional rights will be the failure of the Company to maintain a 2.0 to 1.0 ratio of EBITDA to Interest Expense, as defined, over the applicable measurement periods. The first measurement period was the six months ended December 31, 1999. Thereafter, the measurement periods are the six months ending on the last day of each successive fiscal quarter until September 30, 2010 (excluding the six month periods ended on June 30, 2000, September 30, 2000, June 30, 2001, September 30, 2001, December 31, 2001, and March 31, 2002, as amended by agreements between GE and the Company).

A measurement period for which the Company fails to maintain the required ratio is referred to as an “Occurrence,” however, if the Company maintains a 2.0 to 1.0 ratio in the three fiscal quarters immediately prior to a failure, a “Second Occurrence” or “Third Occurrence,” as the case may be, would not be effective. The “First Occurrence” was effective in the six-month measurement period ended December 31, 1999. The ratio for the six months ended March 31, 2002, was .78 to 1.0 (.23 to 1.0 for the quarter ended March 31, 2002 and 1.24 to 1.0 for the quarter ended December 31, 2001).

A Second Occurrence would: (i) give GE the ability to vote the number of shares currently voted by the CEO of the Company, approximately 2.0 million shares at March 31, 2002, (ii) give GE the option to purchase shares from the CEO of the Company and Alan J. Ruud which, together with the shares owned by GE, would represent 25% of the voting power of the Company, and (iii) require the Company to grant GE an additional warrant to purchase shares, at the then current market price, approximating 6,365,618 shares at March 31, 2002. The ability to vote the shares, purchase shares or

Advanced Lighting Technologies, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2002
(Dollars in thousands, except per share data)

E. General Electric Company Investment (continued)

obtain the warrant would be dependent upon compliance with antitrust laws. GE is not required to purchase additional shares of the Company. If GE owns and/or obtains the immediate right to acquire and/or vote in excess of 35% of the voting power of the Company, the terms of the Indenture relating to the Company's Senior Notes would require that the Company offer to repurchase the \$100,000 principal amount of outstanding Senior Notes due 2008 at a price of 101% of the principal amount thereof, plus accrued interest, and the Company's banks will have the ability to demand payment of the Bank Credit Facility. Upon a Third Occurrence, GE would have the right to vote shares currently voted by Alan J. Ruud and be granted a warrant to purchase (at the then current market price) additional shares of Common Stock sufficient in number to give GE 50% plus one vote of the voting power of the Company.

As described above, the terms of the Series A Preferred Stock permit the holder to require the Company to redeem the Series A Preferred Stock, in whole or in part, if the Company authorizes or issues common stock or warrants or options to purchase common stock, with certain exceptions. The holder has 90 days to exercise its right. Pursuant to the terms of the Series A Preferred Stock, if the holder exercises the right to require redemption, the Company is not required to redeem the Series A Preferred Stock for a period of one year, or thereafter, so long as the redemption would cause an event of default under the Company's indebtedness, including its Bank Credit Facility and its Indenture relating to its 8% Senior Notes due 2008. The Bank Credit Facility and Indenture restrictions on redemption of stock are similar to the restrictions on payment of dividends.

F. Issuance of Common Stock

On August 31, 2000, the Company completed a public offering of 1,700,000 shares of its common stock at a price of \$15.00 per share under a \$300,000 shelf registration filed with the Securities and Exchange Commission that became effective in July 2000.

The public offering reduced the amount available for the issuance of various debt and equity securities under the shelf registration statement to approximately \$274,500. The Company initially used the net proceeds from the public offering of approximately \$22,900 to repay revolving credit loan borrowings. The Company has expended substantially the entire amount as of December 31, 2001 on capital improvements, including optical coating production equipment, filter testing and measurement equipment, and production facilities, and on research and development in its telecommunications business unit.

In addition to the \$300,000 shelf registration discussed above, in July 2000 a \$100,000 shelf registration became effective under which the Company may from time-to-time issue various debt and equity securities to acquire assets, businesses or securities. The Company has no outstanding securities issued under this registration statement.

Advanced Lighting Technologies, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2002
(Dollars in thousands, except per share data)

G. Related Party Transaction

Pursuant to an agreement dated October 8, 1998, as amended, between the Company and its Chairman and Chief Executive Officer (the “CEO”), the Company, following approval by the Company’s Board of Directors, has loaned a total of \$14,144 to its CEO, including interest accrued at an interest rate of 8%. The proceeds of the loan were used by the Company’s CEO to reduce the principal balance outstanding of margin loan accounts. The margin loans were fully repaid in the quarter ended March 31, 2002. In connection with the loan, the Company’s Board of Directors obtained the CEO’s agreement to an extension of his employment agreement to December 31, 2003. The loan agreement prohibits the CEO from encumbering his shares of the Company’s Common Stock in any manner except pursuant to the existing agreements governing the CEO’s margin accounts, without the consent of the Company’s Board of Directors.

The CEO has paid accrued interest of \$720 on the loan through October 6, 1999. On January 22, 2002, the Board and CEO agreed in principle to a plan that extends the maturity of the loan to July 31, 2007. Under the terms of the plan, the CEO will sell certain assets in an orderly manner in order to maximize the net proceeds, which will be used to pay a portion of the loan. The CEO will continue his 10b5-1 plan to sell shares he now owns pursuant to Rule 144 when the stock price exceeds \$15 per share. In addition, the CEO will be expected to apply after-tax cash bonuses earned from the Company toward repayment of the loan. Interest on the loan in the future will accrue at the same rate that the Company pays on its revolving credit loan. The loan will be repayable immediately if the CEO ceases to be employed by the Company. The Board reserved the right to demand payment to prevent an unacceptable strain on cash resources.

The Company’s ability to collect amounts due according to the contractual terms of the loan agreement is largely dependent on the ultimate realization from the sale of assets owned by the CEO, including the CEO’s investment in common stock of the Company. When determining the fair value of investments in common stock, the Company considers both the current market price and also volatility in the stock price over the period in which the Company estimates it would take to sell those shares into the market.

Loan receivables are measured for impairment based on either the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the underlying collateral or other assets available to repay the loan. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company evaluates the collectibility of both the interest and principal when assessing the need for a possible impairment on the loan. During the nine months ended March 31, 2002, in accordance with the provisions of FAS Statement No. 5, *Accounting for Contingencies*, and FAS Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, the Company recorded a valuation reserve for an impaired loan of \$5,500 related to the amount by which the carrying value of the loan exceeded the underlying fair value of the assets available to repay the loan. During the nine months ended March 31, 2002, no interest was recognized or paid on the loan. The Company will recognize recoveries on amounts previously reserved for after considering both the fair value of the underlying assets and evidence of repayments on the loan.

Advanced Lighting Technologies, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2002
(Dollars in thousands, except per share data)

H. Special Charges

During the quarter ended September 30, 2001, the Company recorded special charges related to changes in its operations, which are intended to improve efficiencies and reduce costs world-wide. The special charges principally relate to consolidating the Company's power supply manufacturing operations into its high-efficiency facility in Chennai (Madras), India; reducing staffing levels at most locations and evaluating certain equipment and investments in light of its long-term strategies.

The special charges were determined in accordance with formal plans developed by the Company's management, approved by the CEO and subsequently reviewed with the Company's Board of Directors using the best information available to it at the time. Actions associated with closing facilities began in the first quarter and are expected to be substantially completed by the end of fiscal 2002. A total of approximately 250 employees were terminated enterprise-wide from almost all units of the Company. Assets related to the above actions are no longer in use or are held for sale and were written-down to their estimated fair values. The amount the Company will ultimately incur may change as the Company's plans are executed and actions are completed.

Details of the actions and related special charges recorded during the nine months ended March 31, 2002 are summarized as follows:

Description	Total Charges	Noncash Charges	Cash Payments	Liabilities at Mar. 31, 2002
Consolidate power supply operations				
Severance	\$1,243	\$ —	\$1,131	\$ 112
Lease cancellations	1,835	—	163	1,672
Write-down of assets	2,579	2,579	—	—
Shut-down costs of facilities	265	—	177	88
Reduce staffing requirements	2,017	—	1,587	430
Impairment of long-lived assets	1,425	1,425	—	—
Other	333	333	—	—
	<u>\$9,697</u>	<u>\$4,337</u>	<u>\$3,058</u>	<u>\$2,302</u>

Total special charges for the nine months ended March 31, 2002 of \$9,697 are classified in the consolidated statement of operations as cost of sales (\$688) and special charges (\$9,009).

I. Sale of Preferred Stock Investment

On March 13, 2002, the Company sold its preferred stock investment in Venture Lighting Japan for \$1,300, consisting of \$1,000 in cash and \$300 due in November 2002. The sale resulted in a loss of \$2,007 during the quarter ended March 31, 2002. The loss is included in the caption "Income (loss) from investments" in the consolidated statement of operations.

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J. Earnings Per Share

Earnings (loss) per share is computed as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2002	2001	2002	2001
Income available to common shareholders:				
Income (loss) before cumulative effect of accounting change	\$ (5,660)	\$ (75)	\$(22,682)	\$ 664
Cumulative effect of accounting change	—	—	(71,171)	—
Net income (loss)	(5,660)	(75)	(93,853)	664
Less: Preferred shares accretion	(693)	(647)	(2,040)	(1,905)
Additional preferred shares accretion from cumulative effect of accounting change for beneficial conversion option	—	—	—	(5,329)
Net income (loss) attributable to common shareholders	<u>\$ (6,353)</u>	<u>\$ (722)</u>	<u>\$(95,893)</u>	<u>\$ (6,570)</u>
Weighted average shares — basic and diluted				
Outstanding at beginning of period	23,437	23,229	23,288	20,482
Issued pursuant to public offering	—	—	—	1,284
Issued for exercise of warrant	—	—	—	375
Issued for exercise of stock options	—	—	—	11
Issued pursuant to employee stock purchase plan	8	2	27	6
Issued pursuant to 401(k) plan	17	7	68	17
Weighted average shares — basic and diluted	<u>23,462</u>	<u>23,238</u>	<u>23,383</u>	<u>22,175</u>
Earnings (loss) per share — basic and diluted:				
Income (loss) before cumulative effect of accounting changes	\$ (.24)	\$.00	\$ (.97)	\$.03
Preferred shares accretion	(.03)	(.03)	(.09)	(.09)
Income (loss) before cumulative effect of accounting changes including preferred shares accretion	(.27)	(.03)	(1.06)	(.06)
Cumulative effect of accounting change	—	—	(3.04)	—
Earnings (loss) per share before cumulative effect of accounting change for beneficial conversion option	(.27)	(.03)	(4.10)	(.06)
Additional preferred shares accretion from cumulative effect of accounting change for beneficial conversion option	—	—	—	(.24)
Earnings (loss) per share attributable to common shareholders — basic and diluted	<u>\$ (.27)</u>	<u>\$ (.03)</u>	<u>\$ (4.10)</u>	<u>\$ (.30)</u>

At March 31, 2002, options and warrants to purchase 2,311,947 shares of common stock were outstanding, but were not included in the calculations of diluted earnings per share because their inclusion would have been antidilutive. Options to purchase 3,431,661 shares of common stock were outstanding at March 31, 2001, but were not included in the calculations of diluted earnings per share because their inclusion would have been antidilutive.

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K. Sale of Subsidiaries

On December 12, 2001 the Company completed the sale of a significant portion of its lamp fixture business (its Ruud Lighting, Inc., Kramer Lighting, Inc. and Ruud Lighting Europe subsidiaries) to an investor group led by Alan J. Ruud. From January 1998 until the time of the transaction, Mr. Ruud was a director of the Company and served as Vice Chairman and Chief Operating Officer of the Company and holds in excess of 5% of the Company's outstanding common stock. The fixture subsidiaries' assets consisted primarily of manufacturing equipment, inventory and accounts receivable and the Ruud Lighting manufacturing facility located in Racine, Wisconsin.

The consideration received by the Company consisted of a cash payment of \$28,000 (adjusted dollar for dollar to reflect the amount of any changes in working capital and funded indebtedness between September 2, 2001 and December 3, 2001) and promissory notes totaling \$6,000. Preliminary estimates of the adjustment in the cash consideration resulted in a net reduction of \$2,458 in the cash received at closing. The preliminary estimates are subject to a review process under the agreement that is expected to be completed prior to year end. The notes will be payable December 1, 2006, although, upon receipt of consent from the holders of its 8% Senior Notes, the Company may require payment of \$3,000 in principal amount by surrender of 1,500,000 shares of Company common stock at any time prior to December 1, 2002. As part of this transaction, funded indebtedness of \$9,005 continued to be the obligation of Ruud Lighting and the Company retained title to the Rhode Island manufacturing facility of Kramer Lighting. Upon sale of the facility, the Company will pay Ruud Lighting the lesser of \$500 or one-third of the net proceeds of the sale.

The sale of the subsidiaries resulted in a gain of \$227 in the quarter ended December 31, 2001. The final amount of proceeds to be received and gain or loss realized will be based upon a review process under the purchase agreement that is expected to be completed prior to year end.

L. Contingency

In April and May 1999, three class action suits were filed in the United States District Court, Northern District of Ohio, by certain alleged shareholders of the Company on behalf of themselves and purported classes consisting of Company shareholders, other than the defendants and their affiliates, who purchased stock during the period from December 30, 1997 through September 30, 1998 or various portions thereof. A First Amended Class Action Complaint, consolidating the three lawsuits, was filed on September 30, 1999, and the action is now pending before a single judge. The named defendants in the case – styled *In re Advanced Lighting Technologies, Inc. Securities Litigation, Master File No. 1:99CV836*, pending before the United States District Court, Northern District of Ohio – are the Company and its Chairman and Chief Executive Officer (CEO).

The First Amended Class Action Complaint alleges generally that certain disclosures attributed to the Company contained misstatements and omissions alleged to be violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5, including claims for “fraud on the market” arising from alleged misrepresentations and omissions with respect to the Company's financial performance

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L. Contingency (continued)

and prospects and alleged violations of generally accepted accounting principles by, among other things, improperly recognizing revenue and improper inventory accounting. The Complaint seeks certification of the purported class, unspecified compensatory and punitive damages, pre- and post-judgment interest and attorneys' fees and costs.

The Company and the CEO believe that these claims lack merit, and intend to continue to vigorously defend this action. The Company and its CEO filed a Motion to Dismiss the Complaint, which was denied. The Company participated in a mediation in December 2001 that did not result in a settlement of this action. The case will now proceed. A trial has been scheduled for December 3, 2002.

On December 4 and December 12, 2001 and January 10, 2002, separate lawsuits were filed by separate shareholders of the Company allegedly on behalf of the Company, derivatively, against officers and directors of the Company. The allegations in the three cases are substantially similar, and the two cases filed in Ohio court have been removed to the United States District Court, Northern District of Ohio, where the two cases, *Gobble v Hellman, et al. 1:02CV0076-AA* and *Miller v Hellman, et al. 1:02CV342*, are pending. The suit originally filed in Federal Court, *Tanigawa v Ruud, et al. 1:01CV2807* was voluntarily dismissed by the plaintiff. The Company is a nominal defendant in these actions. The individual defendants in the *Tanigawa* case included, among others, Wayne R. Hellman, the Chief Executive Officer and Chairman of the Board, who is also beneficial owner of more than 5% of the outstanding common stock of the Company, Alan J. Ruud, former Chief Operating Officer and Vice Chairman of the Board, who is also beneficial owner of more than 5% of the outstanding common stock of the Company, and Messrs. Francis H. Beam, John E. Breen, John R. Buerkle, Theodore A. Filson, Louis S. Fisi, Thomas K. Lime and A Gordon Tunstall, directors of the Company. The *Gobble* and *Miller* complaints name the same defendants, but also name Steven C. Potts, who is Chief Financial Officer and is a director.

The suits allege breaches of duties by the defendants relating to the matters which are the subject of *The Advanced Lighting Technologies, Inc Securities Litigation*, to alleged insider trading by certain directors, to a loan made to Mr. Hellman and to the sale of certain fixture facilities to an investment group led by Mr. Ruud. The Complaints primarily seek unspecified money or compensatory and punitive damages and attorneys' fees and costs.

The plaintiffs in the *Gobble* and *Miller* cases submitted formal motions to remand these actions back to state court. The Federal judge denied their motions and the cases are currently pending in Federal court. The Company and the defendants believe that these claims lack merit and intend to vigorously defend these actions.

The Company, from time to time, is subject to routine litigation incidental to its business. Although there can be no assurance as to the ultimate disposition of routine litigation, management of the Company believes, based upon information available at this time, that the ultimate outcome of these matters will not have a material adverse effect on the operations and financial condition of the Company.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

(Dollar amounts in thousands, except per share amounts)

This report on Form 10-Q may contain forward-looking statements that involve risks and uncertainties. Covenants in the Company’s Bank Credit Facility, the Indenture relating to the Company’s 8% Senior Notes and the Company’s agreements with General Electric Company limit certain corporate actions. As a result, implementation of certain strategic alternatives may require consent or replacement of these ADLT financing sources. The Company has no assurance that such consents or replacement financing can be obtained in a manner to permit timely implementation of these strategic alternatives. Other risks and uncertainties include the strength of the recovery of the U.S. economy, the Company’s financing plans, trends affecting the Company’s financial condition or results of operations, continued growth of the metal halide lighting market, the Company’s operating strategy and growth strategy, potential acquisitions or joint ventures by the Company, the declaration and payment of dividends, litigation affecting the Company, the timely development and market acceptance of new products, the possibility that any success at Deposition Sciences, Inc. (an ADLT subsidiary) will not be reflected in the value of the ADLT common stock, the ability to provide adequate incentives to retain and attract key employees, the impact of competitive products and pricing, and other risks which are detailed in the Company’s Form 10-K for the fiscal year ended June 30, 2001, in particular, see “Risk Factors.” For this purpose, any statement contained herein that is not a statement of historical fact may be deemed to be a forward-looking statement. Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “expects,” and similar expressions are intended to identify forward-looking statements. The Company’s actual results may differ materially from those indicated by such forward-looking statements based on the factors outlined above.

The following is management’s discussion and analysis of certain significant factors which have affected the results of operations and should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements and notes thereto.

General

The Company designs, manufactures and markets metal halide lighting products, including materials, system components, systems and equipment. Metal halide lighting is currently used primarily in commercial and industrial applications such as factories and warehouses, outdoor site and landscape lighting, sports facilities and large retail spaces such as superstores. The Company also develops, manufactures, and markets passive optical telecommunications devices, components and equipment based on the optical coating technologies of its wholly owned subsidiary, Deposition Sciences, Inc. (“DSI”). Systems, components and materials revenue is recognized when products are shipped, and equipment revenue is recognized under the percentage of completion method.

Consistent with the Company’s strategy for new product introductions, the Company invests substantial resources in research and development to engineer materials and system components to be included in customers’ specialized systems. Such expenditures have enabled the Company to develop new applications for metal halide lighting, improve the quality of its materials, and introduce new specialized products, such as the Uni-Form® pulse start products. Uni-Form® pulse start products are a new generation of metal halide components and systems which permit (a) increased light output with lower power utilization, (b) faster starting, (c) a quicker restart of lamps which have been recently turned off, and (d) better color uniformity. The Company has spent additional amounts for manufacturing process and efficiency enhancements, which were charged to cost of goods sold when incurred. While research and development expenditures have declined over the last three fiscal years

in connection with the Company’s commitment to generate positive operating cash flow, the Company expects to continue to make substantial expenditures on research and development to enhance its position as the leading innovator in the metal halide lighting industry.

Recent Developments

Sale of Fixture Subsidiaries

On December 12, 2001 the Company completed the sale of a significant portion of its lamp fixture business (its Ruud Lighting, Inc., Kramer Lighting, Inc. and Ruud Lighting Europe subsidiaries) to an investor group led by Alan J. Ruud. From January 1998 until the time of the transaction, Mr. Ruud was a director of the Company and served as Vice Chairman and Chief Operating Officer of the Company and holds in excess of 5% of the Company’s outstanding common stock. The fixture subsidiaries’ assets consisted primarily of manufacturing equipment, inventory and accounts receivable and the Ruud Lighting manufacturing facility located in Racine, Wisconsin.

The consideration received by the Company consisted of a cash payment of \$28,000 (adjusted dollar for dollar to reflect the amount of any changes in working capital and funded indebtedness between September 2, 2001 and December 3, 2001) and promissory notes totaling \$6,000. Preliminary estimates of the adjustment in the cash consideration resulted in a net reduction of \$2,458 in the cash received at closing. The preliminary estimates are subject to a review process under the agreement that is expected to be completed prior to year-end. The notes will be payable December 1, 2006, although, upon receipt of consent from the holders of its 8% Senior Notes, the Company may require payment of \$3,000 in principal amount by surrender of 1,500,000 shares of Company common stock at any time prior to December 1, 2002. As part of this transaction, funded indebtedness of \$9,005 continued to be the obligation of Ruud Lighting and the Company retained title to the Rhode Island manufacturing facility of Kramer Lighting. Upon sale of the facility, the Company will pay Ruud Lighting the lesser of \$500 or one-third of the net proceeds of the sale.

The sale of the subsidiaries resulted in a gain of \$227 in the quarter ended December 31, 2001. The final amount of proceeds to be received and gain or loss realized will be based upon a review process under the purchase agreement that is expected to be completed prior to year end.

Consolidation of Power Supply Production Operations and Restructuring of Worldwide Operations

The Company has implemented plans to improve efficiencies in its power supply business, reduce costs world-wide and assess certain equipment and investments in light of its long-term strategies. The following paragraphs provide information related to special charges as a result of certain actions taken by the Company:

Centralize Certain Power Supply Manufacturing Operations into India Operations. A charge of \$5,922 was recorded in the first quarter of fiscal 2002 relating to restructuring and centralizing certain power supply manufacturing operations into the Company’s high-efficiency and low-cost manufacturing plant in Chennai (Madras), India. Of this charge, costs of \$2,301 were recorded for the closing of the Company’s manufacturing facilities in the United Kingdom, Australia and U.S., including costs of \$2,036 associated with a non-cancelable lease. Amounts related to the lease will be paid over the term of the lease, which expires in 2006. Severance and benefits to approximately 160 terminated employees at the above locations totaled \$1,243 and will be paid by the end of fiscal 2002. Property, primarily consisting of building, equipment and intangibles, was disposed of or is for sale, and written down to net realizable value resulting in a charge of \$2,041. In addition, certain

power supply product lines were exited which resulted in a write-down of inventory of \$337. This amount is included in cost of goods sold.

Staffing Reductions. During the first quarter of fiscal 2002 a program was completed to reduce the number of employees across all business units. Approximately 90 employees, exclusive of the above-noted employees, were terminated and total severance and benefits costs for this program were \$2,017. All employees will be paid by the end of fiscal 2002.

Impairment of Long-lived Assets and Other Charges. Due to the decline in current business conditions, certain long-lived assets and product lines were evaluated for impairment in light of future growth areas of the business and a focus on profit margins and core opportunities. As a result, a charge of \$1,425 was recorded in the first quarter of fiscal 2002 to recognize a write-down in investments and equipment. In addition, a \$333 charge was taken for the abandonment of certain projects and exiting several product lines.

Telecommunications Business Unit

In February 2000, the Company announced the creation of its Fiber Optic Telecommunications Business Unit, which develops and manufactures passive optical telecommunications devices and components, based on its optical coating technology. The telecommunications operations are located in Santa Rosa, California. The Telecommunications Unit uses the proprietary coating equipment, advanced thin film technologies, and measurement capabilities developed by DSI over the last fifteen years for a wide variety of demanding products in both military and commercial applications.

The major focus of the telecommunications business unit is directed at providing (i) optical coatings that reduce insertion losses in fiber optic communications systems, including wavelength division multiplexing (WDM) and dense wavelength division multiplexing (DWDM) systems; (ii) collimating micro-optics for use in WDM and DWDM systems; (iii) filter elements for use in WDM systems; (iv) secondary filter elements for use in DWDM systems; and, (v) narrow bandpass filter elements for use in the multiplex/demultiplex function of DWDM systems. WDM and DWDM are technologies that allow multiple wavelengths of light to be simultaneously transmitted through a single fiber optic cable.

Telecommunication product sales for the first nine months of fiscal 2002 were \$866, a 57% decrease from \$2,013 in the first nine months of fiscal 2001. Backorders in the telecom product area are approximately \$3,600 on contracts scheduled to commence throughout the remainder of calendar 2002. The Company has demonstrated key DWDM filter manufacturing capabilities using its patented MicroDyn® technology. The Company believes that it will develop and market commercial narrow bandpass filter products that take advantage of the Company's patented MicroDyn® sputtering technology.

While the Company does apply optical coatings to elements supplied by its customers, the supply of components is expected to be an increasing portion of its business. The Company has existing manufacturing capacity to support sales of up to \$10,000 per year of existing products. Following additional capital investments, the Company anticipates achieving additional manufacturing capability and revenue for DWDM products using MicroDyn® technology. The Company believes that it can increase its production capacity for its telecommunications products beyond existing levels with additional capital expenditures, on which this business depends.

DSI believes that the current supply exceeds demand for many of these thin film coating products for the telecommunications industry. This situation is expected to continue for the next one to two

years. The principal competitors for the Company’s products are certain large OEMs, such as JDS Uniphase Corporation, Corning Incorporated, and Lucent Technologies, Inc., which have significant internal capability to manufacture thin film filter products, and a variety of smaller companies which specialize in optical coatings, such as Cierra Photonics, Inc., Precision Optics Corp., Inc., Barr Associates, Inc., Iridian Spectral Technologies, Ltd., Thin Film Technologies, Inc., and Evaporated Coatings, Inc. The Company also believes that the large OEMs also represent substantial opportunities for sales of its products.

The Company recognizes that the successful, full-scale development of its telecommunications business unit requires a level of focus and resources that the Company may not be able to provide while this unit resides within a subsidiary of the Company. In pursuit of maximizing shareholder value, the Company has and will continue to explore various strategic alternatives that would enable the telecommunications business unit to pursue an aggressive, focused strategy with sufficient assets and cash to compete in this market.

No final decisions have been made about the future courses of action to be pursued. However, the Company has had discussions with several investment banking firms to assist in identifying and implementing the best strategic alternative for the telecommunications unit.

Results of Operations – Selected Items as a Percentage of Net Sales

The following table sets forth, as a percentage of net sales, certain items in the Company’s Condensed Consolidated Statements of Operations for the indicated periods:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2002	2001	2002	2001
Net sales	100%	100%	100%	100%
Costs and expenses:				
Cost of sales	67.1	60.5	65.3	60.8
Marketing and selling	17.3	19.8	18.8	19.0
Research and development	4.5	5.7	5.1	5.9
General and administrative	10.6	6.7	8.8	6.4
Provision for loan impairment	2.7	—	4.1	—
Gain on settlement of lawsuit	—	—	(0.4)	—
Special charges	—	—	6.7	—
Amortization of intangible assets	0.3	1.3	0.2	1.3
Income (loss) from operations	(2.5)	6.0	(8.6)	6.6
Other income (expense):				
Interest expense	(7.6)	(6.4)	(6.4)	(6.5)
Interest income	0.3	0.5	0.1	0.4
Income (loss) from investments	(6.3)	(0.2)	(1.8)	0.0
Gain from sale of fixture subsidiaries	—	—	0.2	—
Income (loss) before income taxes, minority interest and cumulative effect of accounting change	(16.1)	(0.1)	(16.5)	0.5
Income tax expense	0.4	0.0	0.3	0.1
Income (loss) before minority interest and cumulative effect of accounting change	(16.5)	(0.1)	(16.8)	0.4
Minority interest in income of consolidated subsidiary	(0.2)	0.0	(0.1)	0.0
Income (loss) before cumulative effect of accounting change	(16.7)	(0.1)	(16.9)	0.4
Cumulative effect of accounting change	—	—	(52.9)	—
Net income (loss)	(16.7%)	(0.1%)	(69.8%)	0.4%

Factors that have affected the results of operations for the third quarter of fiscal 2002 as compared to the third quarter of fiscal 2001 are discussed below.

Quarter Ended March 31, 2002 Compared with Quarter Ended March 31, 2001

Net Sales. Net sales decreased 37.2% to \$33,841 in the third quarter of fiscal 2002 from \$53,890 in the third quarter of fiscal 2001. The decrease in sales is primarily due to the sale of the fixture subsidiaries. Excluding the fixture subsidiaries, sales for the third quarter of fiscal 2002 were \$33,841 compared with \$35,672 for the third quarter of fiscal 2001. Third quarter metal halide sales, excluding the fixture subsidiaries, declined 3% to \$25,963 compared with \$26,791 in the same period last year. The Company attributes the decline to weakness in the U.S. economy and the lighting market, in general. The U.S. metal halide market declined 10% during the first nine months of the current fiscal year. During this time the Company has increased its market share from prior year

levels and believes that a stronger U.S. economy will result in an improved lighting market for the Company's products. From 1990 to 2000, the U.S. metal halide lighting market grew at a compound annual rate of 12% per year, and the Company believes that the market will return to a positive growth rate as the U.S. economy improves.

Excluding the fixture subsidiaries, fiscal 2002 third quarter sales of the Company's second-generation metal halide lighting product line, Uni-Form® pulse start, grew 25% to \$6,934 from \$5,564 in the comparable quarter a year ago. About half of the increase in pulse start sales are due to the sales to the former fixture subsidiaries that are now part of the Company's external sales. Sales of APL materials decreased 10% over the same quarter a year ago. Geographically, these sales of materials decreased 17% in the U.S. and decreased 4% outside the U.S. The decline in the U.S. is reflective of the decline in the U.S. metal halide market. Excluding the fixture subsidiaries, non-metal halide lighting sales declined 11%, due to the managed decline of some non-metal halide product sales and weakness in the lighting market.

Excluding the fixture subsidiaries, lighting sales inside the U.S. increased 5% in the third quarter of fiscal 2002 as compared to the same period a year ago. The increase is due to the sales to the former fixture subsidiaries that are now part of the Company's external sales. Without these sales, lighting sales inside the U.S. would have declined 6%, which the Company attributes to weakness in the lighting industry and the U.S. economy in general. Lighting sales outside the U.S. declined 14%, primarily due to a temporary reduction in power supply sales resulting from the transition of production from the United Kingdom to India.

DSI's telecommunication product sales for the third quarter of fiscal 2002 were \$216, a decrease of 73% from \$805 in the third quarter of fiscal 2001. The decrease is attributed to the overall decline in the telecommunications industry. However, sales of DSI's non-telecom materials and equipment increased 7% to \$2,826 in the third quarter of fiscal 2002 from \$2,635 in the third quarter of fiscal 2001 as the Company capitalized on DSI's expertise in thin-film optical coatings and optical coating equipment manufacturing opportunities.

Pricing in the metal halide lighting business is competitive, and prices for the Company's products have remained flat or declined slightly. The introduction of new products has helped to stabilize the Company's product pricing.

Cost of Sales. Cost of sales decreased 30.3% to \$22,706 in the third quarter of fiscal 2002 from \$32,589 in the third quarter of fiscal 2001. The decrease is primarily attributable to the sale of the fixture subsidiaries. As a percentage of net sales, cost of sales increased to 67.1% in the third quarter of fiscal 2002 from 60.5% in the third quarter of fiscal 2001. Cost of sales was negatively impacted by several unusual items including inventory writedowns, additional costs related to the move of the European power supply production to India, and unfavorable overhead variance resulting from the decrease in production due to the Company's commitment to significant reductions in inventory levels. The increase in cost of sales as a percentage of sales was reflected across all areas of the Company's sales including materials, system components and systems. The margins were also negatively impacted by the shift in the mix of product sales reflecting increases in lower margin power supply and equipment sales and decreases in higher margin materials sales. The Company believes that cost of sales as a percent of sales will decline to approximately 60% of sales by the end of calendar 2002.

Marketing and Selling Expenses. Marketing and selling expenses decreased 45.0% to \$5,868 in the third quarter of fiscal 2002 from \$10,668 in the third quarter of fiscal 2001. As a percentage of net sales, marketing and selling expenses declined to 17.3% in the third quarter of fiscal 2002 from

19.8% in the third quarter of fiscal 2001. The decrease in both amount and percentage of net sales is primarily attributable to the sale of the fixture subsidiaries, as marketing and selling expenses were higher as a percentage of net sales for the fixture subsidiaries.

Research and Development Expenses. Research and development expenses declined 50.6% in the third quarter of fiscal 2002 to \$1,529 from \$3,098 in the third quarter of fiscal 2001. The decrease is primarily attributable to the sale of the fixture subsidiaries. Research and development expenses incurred related to: (i) expansion and continued improvement of the line of Uni-Form® pulse start lamps (with improved energy efficiency, quicker starting and restarting and a more compact arc source, which improves the light and reduces material costs) intended to replace many first generation metal halide lamps and fixtures in industrial and commercial applications; (ii) improving the coating process of optical thin-films to broaden the applications, developing new thin-film materials, and using coatings to develop improvements to lighting and telecommunications technologies; (iii) development of new materials for the world's major lighting manufacturers; and, (iv) development and testing of electronic and electromagnetic power supply systems. As a percentage of net sales, research and development expenses decreased to 4.5% in the third quarter of fiscal 2002 from 5.7% in the third quarter of fiscal 2001. While research and development expenditures declined in connection with the Company's commitment to generate positive operating cash flow, the Company expects to continue to make substantial expenditures on research and development to enhance its position as the leading innovator in the metal halide lighting industry.

General and Administrative Expenses. General and administrative expenses of \$3,602 were 0.1% lower in the third quarter of fiscal 2002 compared to \$3,606 in the third quarter of fiscal 2001. The decrease resulted from the sale of the fixture subsidiaries resulting in the elimination of approximately \$900 of expenses, offset by an increase in corporate expenses of approximately \$800 (including legal and consulting fees of \$510).

Provision for Loan Impairment. In the quarter ended March 31, 2002, the Company recorded an additional valuation reserve for an impaired loan of \$900 related to the amount by which the carrying value of the loan receivable from officer exceeded the underlying fair value of the assets available to repay the loan. In the quarter ended March 31, 2002, no interest income was recognized or paid on the loan.

Amortization of Intangible Assets. Amortization expense decreased to \$83 in the third quarter of fiscal 2002 from \$709 in the third quarter of fiscal 2001. The decrease in amortization expense is due to the adoption in the fiscal 2002 first quarter of Statement of Financial Accounting Standards (FAS) No. 142, *Goodwill and Intangible Assets*. As a result, goodwill, as well as intangible assets with indefinite lives, are no longer subject to amortization.

Income (Loss) from Operations. As a result of the items noted above, the Company realized loss from operations in the third quarter of fiscal 2002 of \$(847) as compared to income from operations of \$3,220 in the third quarter of fiscal 2001.

Interest Expense. Interest expense decreased to \$2,559 in the third quarter of fiscal 2002 from \$3,436 in the third quarter of fiscal 2001. The decrease is primarily attributable to the reduction in debt outstanding resulting from the sale of the fixture subsidiaries and a significant reduction in interest rates related to a portion of the Company's debt.

Interest Income. Interest income decreased to \$82 in the third quarter of fiscal 2002 from \$262 in the third quarter of fiscal 2001. The decrease is primarily attributable to the cessation of interest income recognition on the loan receivable from officer.

Income (Loss) from Investments. The income (loss) from investments in the third quarter of fiscal 2002 of \$(2,121) consists of a loss on the sale of a preferred stock investment in Venture Lighting Japan of \$(2,007) and an equity loss of \$(114) from the Company’s investment in Fiberstars, Inc., a marketer and distributor of fiber optic lighting products. The loss in the third quarter of fiscal 2001 of \$(81) represents the equity loss from the Company’s investment in Fiberstars.

Income (Loss) before Income Taxes and Minority Interest. The Company had a loss before income taxes and minority interest of \$(5,445) in the third quarter of fiscal 2002 as compared to a loss before income taxes and minority interest of \$(35) in the third quarter of fiscal 2001.

Income Taxes. Income tax expense was \$152 for the third quarter of fiscal 2002 as compared to \$9 in the third quarter of fiscal 2001. The income tax expense in the third quarters of fiscal 2002 and 2001 related primarily to certain of the Company’s foreign operations.

At June 30, 2001, the Company had net operating loss carryforwards of \$88,901 available to reduce future United States federal taxable income, which expire in varying amounts from 2008 to 2021.

The Company also has research and development credit carryforwards for tax purposes of approximately \$3,818, which expire in varying amounts from 2008 to 2015. Additionally, in conjunction with the Alternative Minimum Tax (“AMT”) rules, the Company had available AMT credit carryforwards for tax purposes of approximately \$259, which may be used indefinitely to reduce regular federal income taxes.

Also at June 30, 2001, the Company had foreign net operating loss carryforwards for tax purposes totaling \$1,698 that expire in varying amounts from 2002 to 2007 and \$8,053 that have no expiration dates.

Nine Months Ended March 31, 2002 Compared with Nine Months Ended March 31, 2001

Net Sales. Net sales decreased 18.3% to \$134,535 in the first nine months of fiscal 2002 from \$164,697 in the first nine months of fiscal 2001. The decrease in sales is primarily attributed to the sale of the fixture subsidiaries. Excluding the fixture subsidiaries, sales for the first nine months of fiscal 2002 were \$99,451 compared with \$101,939 for the first nine months of fiscal 2001. Metal halide sales, excluding the fixture subsidiaries, declined 3% to \$76,352 for the first nine months of fiscal 2002 compared with \$78,404 for the first nine months of fiscal 2001. The Company attributes the decline to weakness in the U.S. economy and the lighting market, in general. The U.S. metal halide market declined 10% during the first nine months of the current fiscal year. During this time the Company has increased its market share from prior year levels and believes that a stronger U.S. economy will result in an improved lighting market for the Company’s products. From 1990 to 2000, the U.S. metal halide lighting market grew at a compound annual rate of 12% per year, and the Company believes that the market will return to a positive growth rate as the U.S. economy improves.

Excluding the fixture subsidiaries, sales of the Company’s second-generation metal halide lighting product line, Uni-Form® pulse start, grew 27% to \$22,167 for the first nine months of fiscal 2002 from \$17,438 for the first nine months of fiscal 2001. Sales of APL materials decreased 8% over the same nine months a year ago. Geographically, these sales of materials decreased 18% in the U.S., but outside the U.S. remained flat as compared to the prior year. The decline in the U.S. is reflective of the decline in the U.S. metal halide market. Excluding the fixture subsidiaries, non-metal halide lighting sales declined 5%, due to the managed decline of some non-metal halide product lines and weakness in the lighting market.

Excluding the fixture subsidiaries, lighting sales inside the U.S. decreased 4% in the first nine months of fiscal 2002 as compared to the same period a year ago, due to weakness in the general U.S. economy and U.S. lighting market during that period as compared to the year ago period. Lighting sales outside the U.S. declined 4%, primarily due to a temporary reduction in power supply sales resulting from the transition of production from the United Kingdom to India.

DSI's telecommunication product sales for the nine months of fiscal 2002 were \$866, a decrease of 57% from \$2,013 in the first nine months of fiscal 2001. The decrease is attributed to the overall decline in the telecommunications industry. However, sales of DSI's non-telecom materials and equipment increased 26% to \$7,484 in the first nine months of fiscal 2002 from \$5,918 in the first nine months of fiscal 2001 as the Company capitalized on DSI's expertise in thin-film optical coatings and optical coating equipment manufacturing opportunities.

Pricing in the metal halide lighting business is competitive, and prices for the Company's products have remained flat or declined slightly. The introduction of new products has helped to stabilize the Company's product pricing.

Cost of Sales. Cost of sales decreased 12.2% to \$87,859 in the first nine months of fiscal 2002 from \$100,075 in the first nine months of fiscal 2001. As a percentage of net sales, cost of sales increased to 65.3% in the first nine months of fiscal 2002 from 60.8% in the first nine months of fiscal 2001. Cost of sales was negatively impacted by several unusual items including inventory writedowns, additional costs related to the move of the European power supply production to India, and unfavorable overhead variance resulting from the decrease in production due to the Company's commitment to significant reductions in inventory levels. The increase in cost of sales as a percentage of sales was reflected across all areas of the Company's sales including materials, system components and systems. The margins were also negatively impacted by the shift in the mix of product sales reflecting increases in lower margin power supply and equipment sales and decreases in higher margin materials sales. The Company believes that cost of sales as a percent of sales will decline to approximately 60% of sales by the end of calendar 2002.

Marketing and Selling Expenses. Marketing and selling expenses decreased 19.4% to \$25,322 in the first nine months of fiscal 2002 from \$31,407 in the first nine months of fiscal 2001. The decrease is primarily attributable to the sale of the fixture subsidiaries, and is comparable with the decrease in sales.

Research and Development Expenses. Research and development expenses declined 29.1% in the first nine months of fiscal 2002 to \$6,863 from \$9,681 in the first nine months of fiscal 2001. The decrease is primarily related to the sale of the fixture subsidiaries. Research and development expenses incurred related to: (i) expansion and continued improvement of the line of Uni-Form® pulse start lamps (with improved energy efficiency, quicker starting and restarting and a more compact arc source, which improves the light and reduces material costs) intended to replace many first generation metal halide lamps and fixtures in industrial and commercial applications; (ii) improving the coating process of optical thin-films to broaden the applications, developing new thin-film materials, and using coatings to develop improvements to lighting and telecommunications technologies; (iii) development of new materials for the world's major lighting manufacturers; and, (iv) development and testing of electronic and electromagnetic power supply systems. As a percentage of net sales, research and development expenses decreased to 5.1% in the first nine months of fiscal 2002 from 5.9% in the first nine months of fiscal 2001. While research and development expenditures declined in connection with the Company's commitment to generate positive operating cash flow, the Company expects to continue to make substantial expenditures on

research and development to enhance its position as the leading innovator in the metal halide lighting industry.

General and Administrative Expenses. General and administrative expenses increased 11.7% to \$11,857 in the first nine months of fiscal 2002 from \$10,614 in the first nine months of fiscal 2001. The increase included an increase in corporate expenses of approximately \$1,350 (including legal and consulting fees of \$957), net of a reduction in general and administrative expenses of \$500 related to the fixture subsidiaries that were sold in the second quarter. Also, in fiscal 2001, expenses were reduced by the elimination of a \$500 litigation-related accrual that, based on review with legal counsel, was no longer required.

Provision for Loan Impairment. During the first nine months of fiscal 2002, the Company recorded a valuation reserve for an impaired loan of \$5,500 related to the amount by which the carrying value of the loan receivable from officer exceeded the underlying fair value of the assets available to repay the loan. In fiscal 2002, no interest income has been recognized or paid on the loan.

Gain on Settlement of Claim. The Company recorded a gain on the settlement of a claim, net of legal fees, as a result of the enforcement of a non-compete agreement with several former employees of a subsidiary of the Company. The terms of the settlement are expected to result in an additional receipt by the Company of \$525 in June 2002, however, the Company will not reflect this contingent gain amount until realized.

Special Charges. See “Consolidation of Power Supply Production Operations and Restructuring of Worldwide Operations” above.

Amortization of Intangible Assets. Amortization expense decreased to \$253 in the first nine months of fiscal 2002 from \$2,118 in the first nine months of fiscal 2001. The decrease in amortization expense is due to the adoption in the fiscal 2002 first quarter of Statement of Financial Accounting Standards (FAS) No. 142, *Goodwill and Intangible Assets*. As a result, goodwill, as well as intangible assets with indefinite lives, is no longer subject to amortization.

Income (Loss) from Operations. As a result of the items noted above, the Company incurred a loss from operations in the first nine months of fiscal 2002 of \$(11,574) as compared to income from operations of \$10,802 in the first nine months of fiscal 2001. Excluding special charges of \$(9,697), the provision for loan impairment of \$(5,500) and the gain on settlement of claim of \$554, the Company realized income from operations of \$3,465 in the first nine months of fiscal 2002.

Interest Expense. Interest expense decreased to \$8,616 in the first nine months of fiscal 2002 from \$10,663 in the first nine months of fiscal 2001. The decrease is primarily attributable to the significant reduction in interest rates related to a portion of the Company’s debt and the reduction in debt outstanding resulting from the sale of the fixture subsidiaries.

Interest Income. Interest income decreased to \$144 in the first nine months of fiscal 2002 from \$749 in the first nine months of fiscal 2001. The decrease is primarily attributable to the cessation of interest income recognition in the first quarter of fiscal 2002 related to the loan receivable from officer as mentioned above.

Income (Loss) from Investments. The income (loss) from investments in the first nine months of fiscal 2002 of (\$2,332) consists of a loss on the sale of a preferred stock investment in Venture Lighting Japan of \$(2,007) and an equity loss of \$(325) from the Company’s investment in Fiberstars, Inc., a marketer and distributor of fiber optic lighting products. The loss in the first nine

months of fiscal 2001 of \$(63) represents the equity loss from the Company’s investment in Fiberstars.

Gain from Sale of Fixture Subsidiaries. See “Sale of Fixture Subsidiaries” above.

Income (Loss) before Income Taxes, Minority Interest and Cumulative Effect of Accounting Change. The Company had a loss before income taxes, minority interest and cumulative effect of accounting change of \$(22,151) in the first nine months of fiscal 2002 as compared to income before income taxes, minority interest and cumulative effect of accounting change of \$825 in the first nine months of fiscal 2001. Excluding special charges of \$(9,697), the provision for loan impairment of \$(5,500), the gain on settlement of claim of \$554, the loss on the sale of the preferred stock investment of \$(2,007), and the gain on sale of the fixture subsidiaries of \$227, the Company realized a loss before income taxes, minority interest and cumulative effect of accounting change of \$(5,728) in the first nine months of fiscal 2002.

Income Taxes. Income tax expense was \$386 for the first nine months of fiscal 2002 as compared to income tax expense of \$106 in the first nine months of fiscal 2001. The income tax expense in the first nine months of fiscal 2002 and 2001 related primarily to certain of the Company’s foreign operations.

At June 30, 2001, the Company had net operating loss carryforwards of \$88,901 available to reduce future United States federal taxable income, which expire in varying amounts from 2008 to 2021.

The Company also has research and development credit carryforwards for tax purposes of approximately \$3,818, which expire in varying amounts from 2008 to 2015. Additionally, in conjunction with the Alternative Minimum Tax (“AMT”) rules, the Company had available AMT credit carryforwards for tax purposes of approximately \$259, which may be used indefinitely to reduce regular federal income taxes.

Also at June 30, 2001, the Company had foreign net operating loss carryforwards for tax purposes totaling \$1,698 that expire in varying amounts from 2002 to 2007 and \$8,053 that have no expiration dates.

Cumulative Effect of Accounting Change. The Company adopted FAS 142 in the first quarter of fiscal 2002 and recorded a cumulative effect of change in accounting principle for the impairment of goodwill and other indefinite lived intangible assets of \$71,171, or \$(3.04) per share, as of the beginning of fiscal 2002 (July 1, 2001).

Liquidity and Capital Resources

The Company’s principal financial requirements are for working capital, capital expenditures, market development activities, and research and development efforts. These requirements have been, and the Company expects they will continue to be, financed primarily through a combination of cash flow from operations, borrowings under credit arrangements and the sale of stock and debt under two shelf registration statements for \$300,000 and \$100,000. These shelf registration statements will not be available for offerings, other than investment grade debt securities, until the market value of common equity held by non-affiliates again exceeds \$75,000.

Cash decreased \$1,292 during the first nine months of fiscal 2002. Cash used in operating activities totaled \$989, cash provided by investing activities totaled \$13,748, and cash used in financing activities totaled \$14,051.

Net Cash Provided by (Used in) Operating Activities. Net cash used in operating activities totaled \$989 during the first nine months of fiscal 2002 as compared to net cash provided by operating activities of \$410 in the first nine months of fiscal 2001.

Net Cash Provided by (Used in) Investing Activities. During the first nine months of fiscal 2002, net cash provided by investing activities totaled \$13,748, which consisted primarily of net proceeds from the sale of the fixture subsidiaries of \$24,166, net of capital expenditures of \$11,330. Capital expenditures in fiscal 2002 related to building improvements and additional machinery and equipment to improve production processes, which should result in increased productivity and capacity in the production of telecommunications and lighting products. The Company plans to limit its capital expenditure program for the next twelve months.

Under its \$300,000 shelf registration, in September 2000, the Company sold 1,700,000 shares of common stock for \$15.00 per share to fund the future expansion of its telecommunications business. The net proceeds from the stock offering of \$22,900 were initially used to repay indebtedness outstanding under the Bank Credit Facility. The Company has expended substantially the entire amount as of December 31, 2001 on capital improvements, including optical coating production equipment, filter testing and measuring equipment, production facilities, and on research and development, in the telecommunications business. Future telecommunications capital expenditures will be determined based upon the economic recovery of the telecommunications industry.

The Company estimates its capital expenditures will approximate \$4,000 to \$6,000 over the next twelve months. Future capital expenditures beyond this level will be discretionary, as the Company presently has sufficient operating capacities to support several years of sales growth at its historical rates.

Net Cash Provided by (Used in) Financing Activities. During the first nine months of fiscal 2002, net cash used in financing activities was \$14,051. This primarily represents repayments of bank debt under the Company's credit facilities.

The Company has \$100,000 of 8% Senior Notes due March 15, 2008. The notes are redeemable at the Company's option, in whole or in part, on or after March 15, 2003 at certain preset redemption prices. Interest on the Senior Notes is payable semiannually on March 15 and September 15 of each year. There are no sinking fund requirements.

Pursuant to an agreement dated October 8, 1998, as amended, between the Company and its Chairman and Chief Executive Officer (the "CEO"), the Company, following approval by the Company's Board of Directors, has loaned a total of \$14,144 to its CEO, including interest accrued at an interest rate of 8%. The proceeds of the loan were used by the Company's CEO to reduce the principal balance outstanding of margin loan accounts. The margin loans were fully repaid in the quarter ended March 31, 2002. In connection with the loan, the Company's Board of Directors obtained the CEO's agreement to an extension of his employment agreement to December 31, 2003. The loan agreement prohibits the CEO from encumbering his shares of the Company's Common Stock in any manner except pursuant to the existing agreements governing the CEO's margin accounts, without the consent of the Company's Board of Directors.

The CEO has paid accrued interest of \$720 on the loan through October 6, 1999. On January 22, 2002, the Board and CEO agreed in principle to a plan that extends the maturity of the loan to July 31, 2007. Under the terms of the plan, the CEO will sell certain assets in an orderly manner in order to maximize the net proceeds, which will be used to pay a portion of the loan. The CEO will continue his 10b5-1 plan to sell shares he now owns pursuant to Rule 144 when the stock price

exceeds \$15 per share. In addition, the CEO will be expected to apply after-tax cash bonuses earned from the Company toward repayment of the loan. Interest on the loan in the future will accrue at the same rate that the Company pays on its revolving credit loan. The loan will be repayable immediately if the CEO ceases to be employed by the Company. The Board reserved the right to require earlier repayment if ADLT requires the payment to prevent an unacceptable strain on cash resources.

The Company's ability to collect amounts due according to the contractual terms of the loan agreement is largely dependent on the ultimate realization from the sale of assets owned by the CEO, including the CEO's investment in common stock of the Company. When determining the fair value of investments in common stock, the Company considers both the current market price and also volatility in the stock price over the period in which the Company estimates it would take to sell those shares into the market.

Loan receivables are measured for impairment based on either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the underlying collateral or other assets available to repay the loan. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company evaluates the collectibility of both the interest and principal when assessing the need for a possible loss accrual. During the first nine months of fiscal 2002, the Company recorded a valuation reserve for an impaired loan of \$5,500 related to the amount by which the carrying value of the loan exceeded the underlying fair value of the assets available to repay the loan. The Company will recognize recoveries on amounts previously reserved for after considering the fair value of the underlying assets and evidence of repayments on the loan.

Ability to Advance Future Operations. The Company has implemented, and will continue to implement, changes in its operational activities intended to reduce the use of its cash resources to a level at or below the cash flow generated by its operations. The Company's working capital (current assets less current liabilities) at March 31, 2002 was \$28,083, resulting in a working capital ratio of current assets to current liabilities of 1.9 to 1.0, as compared to \$46,056 or 2.1 to 1.0 at June 30, 2001. As of March 31, 2002, the Company had \$2,360 in cash and cash equivalents.

The interest-bearing obligations of the Company totaled \$141,395 as of March 31, 2002, and consisted of: \$29,213 of borrowings under the Bank Credit Facility; \$100,000 of 8% Senior Notes; mortgages of \$5,503; promissory notes of \$2,300; obligations of foreign subsidiaries of \$4,356; and, capital leases of \$23.

During the quarter ended December 31, 2001, in connection with the sale of the fixture subsidiaries, the Company amended its Bank Credit Facility to reduce the revolving credit loan to \$25,000 from \$40,000 and the term loan to \$13,000 from \$25,000 and change certain covenants under the agreement. Availability of borrowings under the revolving credit loan is determined by the Company's eligible account receivables and inventories. Prior to the amendment described below, interest rates on the revolving credit loans outstanding were based, at the Company's option, on LIBOR plus 2.75% or the agent bank's prime rate. Under the term loan, the Company pays monthly principal payments that total \$3,576 annually, with the unpaid balance due at maturity. Prior to the amendment described below, interest rates on the term loan were based, at the Company's option, on LIBOR plus 3.25% or the agent bank's prime rate. The Bank Credit Facility matures on July 1, 2004.

The Bank Credit Facility contains certain affirmative and negative covenants customary for this type of agreement, prohibits cash dividends, and includes a financial covenant with respect to the coverage of certain fixed charges. At March 31, 2002, the Company was not in compliance with this financial covenant. The Company obtained a waiver for non-compliance from its lenders for the quarter then ended. In addition, the Bank Credit Facility was amended to provide for a new measurement period for this covenant commencing April 1, 2002. The Company expects to meet this covenant at future determination dates. The Company's ability to elect LIBOR-based interest rates on its loans was suspended pursuant to this amendment. The principal security for the revolving credit loan is substantially all of the personal property of the Company and each of its North American and United Kingdom subsidiaries. The term loan is secured by substantially all of the Company's machinery and equipment and is cross-collateralized and secured with the revolving credit loan.

On August 31, 2000, the Company completed a public offering of 1,700,000 shares of its common stock at a price of \$15.00 per share under a \$300,000 shelf registration filed with the Securities and Exchange Commission that became effective in July 2000.

The public offering reduced the amount available for the issuance of various debt and equity securities under the shelf registration statement to approximately \$274,500. The net proceeds from the public offering of approximately \$22,900 were initially used to repay indebtedness outstanding under the Bank Credit Facility. The Company has expended substantially the entire amount as of December 31, 2001 on capital improvements, including optical coating production equipment, filter testing and measurement equipment, production facilities, and on research and development in its telecommunications business unit.

In addition to the \$300,000 shelf registration discussed above, in July 2000 a \$100,000 shelf registration became effective under which the Company may from time-to-time issue various debt and equity securities to acquire assets, businesses or securities. The Company has no outstanding securities issued under this registration statement. These shelf registration statements will not be available for offerings, other than investment grade debt securities, until the market value of common equity held by non-affiliates again exceeds \$75,000.

The Company has implemented a working capital improvement program to conserve and generate cash. In addition, the Company is actively managing its cash, especially as it relates to any discretionary expenditures. The Company's ability in the future to fund operations, service debt and provide for capital expenditures is dependent on the success of its working capital improvement plan.

The Company believes that an improvement in its working capital, along with its available cash, anticipated cash flow from operations, certain building sales, and availability under its Bank Credit Facility, should enable the Company to fund its operations for at least the next 12 months. Beyond the next year, the Company believes a return to profitability and positive cash flow from operations, the growth in the popularity and applications for metal halide products and systems, and opportunities in telecommunications and optical coatings should enable the Company to access additional capital resources, as needed.

Impact of Recently Issued Accounting Standards

In July, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 141, *Business Combinations*, and FAS 142, *Goodwill and Intangible Assets*. FAS 141 is effective for all business combinations completed after June 30, 2001

and requires using the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001.

FAS 142 is effective for fiscal years beginning after December 15, 2001, however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of FAS 142. Early adoption of FAS 142 is permitted. Major provisions of FAS 142 require intangible assets acquired in a business combination to be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented or exchanged, either individually or as part of a related contract, asset or liability. In addition, goodwill, as well as intangible assets with indefinite lives, will no longer be subject to amortization effective July 1, 2001. Finally, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator. Previously, the Company measured goodwill and intangibles (to be held and used) with indefinite lives for impairment using undiscounted cash flows under the guidance of FAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*.

The Company adopted FAS 142 as of July 1, 2001. The Company evaluated goodwill of \$66,172 and intangible assets with indefinite lives of \$11,874, which represents tradenames. The Company used third party appraisals and expected future discounted cash flows to determine the fair value of the reporting units and whether any impairment of goodwill or indefinite lived intangible assets existed as of the above date. As a result of this evaluation, the Company recorded a cumulative effect of change in accounting principle for the estimated impairment of goodwill and other indefinite lived intangible assets of \$71,171, or \$(3.04) per share, as of the beginning of fiscal 2002. The impact of adopting FAS 142 was to reduce amortization and, consequently, the loss before cumulative effect of accounting change for the third quarter of fiscal 2002 by \$109, or \$.00 per share. The impact of adopting FAS 142 was to reduce the loss before cumulative effect of accounting change for the first nine months of fiscal 2002 by \$1,206, or \$.05 per share. Amortization of intangible assets in the third quarter of fiscal 2001 would have been \$68, a reduction of \$641, or \$.03 per share if the accounting change related to acquired intangible amortization required by FAS 142 had been applied to that quarter. Amortization of intangible assets in the first nine months of fiscal 2001 would have been \$244, a reduction of \$1,874, or \$.09 per share if the accounting change related to acquired intangible amortization required by FAS 142 had been applied to that period.

The Company adopted Emerging Issues Task Force (“EITF”) Issue 01-9 “Accounting for Consideration Given by a Vendor to a Customer” in the quarter ended March 31, 2002. EITF Issue 01-9 requires that expense associated with a free product or service delivered at the time of sale of another product or service should be classified as cost of sales. The Company’s fixture subsidiaries that were sold in the second quarter of fiscal 2002 had incurred and included such costs in marketing and selling expense. Accordingly, the Company has reclassified such amounts to cost of sales within these financial statements. The amounts reclassified for the three months ended March 31, 2002 and 2001 are \$0 and \$1,098, respectively. The amounts reclassified for the nine months ended March 31, 2002 and 2001 are \$1,836 and \$3,090, respectively.

In August 2001, the Financial Accounting Standards Board issued FAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement addresses financial accounting for the impairment and disposal of long-lived assets, and supersedes FAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*. The Company must adopt FAS No. 144 on July 1, 2002. Management is currently studying the potential effect of adopting this statement.

Foreign Currency

Approximately 22% of the Company’s net sales in fiscal 2001 were denominated in currencies other than U.S. dollars, principally pounds sterling, Australian dollars and Canadian dollars. A weakening of such currencies versus the U.S. dollar could have a material adverse effect on the Company. The Company started a program in fiscal 2002 to hedge a portion of its foreign currency balance sheet exposures which is intended to reduce any significant impact on earnings and cash flow.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

During the nine months ended March 31, 2002, there have been no material changes in the reported market risks presented in the Company’s Annual Report on Form 10-K for the year ended June 30, 2001.

The Company enters into forward exchange contracts to reduce its exposure to fluctuations in related foreign currencies. These contracts are with a major financial institution and the risk of loss is considered remote. The Company does not hold or issue derivative financial instruments for trading purposes. The total value of open contracts and any risk to the Company as a result of these arrangements is not material to the Company’s financial position, liquidity or results of operations.

Part II. Other Information

Except as noted below, the items in Part II are inapplicable or, if applicable, would be answered in the negative. These items have been omitted and no other reference is made thereto.

Item 1. Legal Proceedings

The information included in Note L of the “Notes to Condensed Consolidated Financial Statements (Unaudited)” included in this Report on Form 10-Q is hereby incorporated by reference.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Title	Incorporated by Reference
3.1	Second Amended and Restated Articles of Incorporation filed September 26, 1995	(1)
3.2	Certificate of Adoption of Third Amendment to Second Amended and Restated Articles of Incorporation filed October 6, 1999	(2)
3.3	Certificate of Adoption of Fourth Amendment to Second Amended and Restated Articles of Incorporation filed March 16, 2000	(3)
3.4	Code of Regulations	(4)
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4	
10.1	Eleventh Amendment Agreement by and among Advanced Lighting Technologies, Inc. and certain of its subsidiaries and PNC Bank, National Association, as agent for certain other banks dated as of April 23, 2002 amending the Credit Agreement by and among the same parties dated as of May 21, 1999	
10.2	Twelfth Amendment Agreement by and among Advanced Lighting Technologies, Inc. and certain of its subsidiaries and PNC Bank, National Association, as agent for certain other banks dated as of May 13, 2002 amending the Credit Agreement by and among the same parties dated as of May 21, 1999.	
10.3	Fifth Amendment to Contingent Warrant Agreement dated as of March 31, 2002 by and among Advanced Lighting Technologies, Inc., General Electric Company, Wayne R. Hellman, individually and as voting trustee under Voting Trust Agreement dated October 10, 1995, Hellman Ltd. And Alan J. Ruud, individually and as voting trustee under Voting Trust Agreement dated January 2, 1998	
12	Statement Re: Computation of Ratio of Earnings to Fixed Charges	

(1) Incorporated by reference to Exhibit of same number in Company’s Quarterly Report on Form 10-Q for the Quarterly Period ended December 31, 1996.

- (2) Incorporated by reference to Exhibit of same number in Company's Quarterly Report on Form 10-Q/A for the Quarterly Period ended September 30, 1999 filed January 14, 2000.
- (3) Incorporated by reference to Exhibit of same number in Company's Annual Report on Form 10-K for the Annual Period ended June 30, 2000 filed September 27, 2000.
- (4) Incorporated by reference to Exhibit 3.2 in Company's Registration Statement on Form S-1, Registration No. 33-97902, effective December 11, 1995.

- (b) Reports on Form 8-K.

No reports on Form 8-K have been filed during the quarter ended March 31, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ADVANCED LIGHTING TECHNOLOGIES, INC.

Date: May 15, 2002

By: /s/ Wayne R. Hellman
Wayne R. Hellman
Chief Executive Officer

Date: May 15, 2002

By: /s/ Steven C. Potts
Steven C. Potts
Chief Financial Officer

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